DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Retail Rates Committee

Thursday, January 4, 2007
8:30 a.m.

MEETING MINUTES

COMMITTEE MEMBERS	WASA STAFF
Glenn Gerstell, Chairman	Jerry Johnson, General Manager
David J. Bardin	Olu Adebo, Acting Chief Financial Officer
F. Alexis H. Roberson	Avis M. Russell, General Counsel
Joseph Cotruvo	Linda R. Manley, Board Secretary
Howard Gibbs	
Brenda Richardson	

Chairman Glenn Gerstell called the meeting to order at 8:40 a.m., and explained that this meeting, which is open to the public, is a recorded session. The Chairman asked that Board Secretary Linda Manley call the roll in order to determine the presence of a quorum; and a quorum was established.

Mr. Gerstell asked Mr. Johnson to proceed with his review of the revised FY 2007 and proposed FY 2008 budgets.

Budget Review

Mr. Johnson reviewed the budget calendar to highlight remaining milestones in the budget process. On January 18, the Environmental Quality and Operations Committee (EQOC) will continue its review of the proposed Capital Improvement Plan (CIP). After concluding their review, management will ask the EQOC to take action on the budget proposals. And finally, on January 25, the Finance and Budget and Retail Rates Committees will conduct their final reviews and recommend action on the budget proposals. The full board will consider budget recommendations from the various Committees on February 1.

Next, Mr. Johnson continued with a discussion on the need for a rate increase. The revised FY 2007 operating budget totals $311.2 million, a $0.4 million decrease from the FY 2007 approved budget. The FY 2008 proposed budget increases by $30 million above the revised budget level. Operations and maintenance costs (O&M), excluding the payment in lieu of taxes/right of way fee (PILOT/ROW) and debt service costs is approximately 3.5 percent higher than the revised FY 2007 budget. Management proposes a 7.5 percent rate increase in water and sewer rate for FY 2008 and a 6.8 percent increase in the PILOT/ROW fee. This proposal is consistent with the memorandum of understanding between WASA and the District government.

In discussing projected staffing levels for authorized full-time positions, Mr. Johnson explained that the FY 2007 revised budget increases by 14 positions to 1,128 positions. This increase will enable more aggressive recruitment of wastewater treatment plant operators at the Blue Plains Plant through the establishment of entry level trainee positions for that purpose. The proposed FY 2008 position level totals 1,124, or 4 positions lower than the revised FY 2007 budget.

Mr. Adebo continued with an overview of operations and maintenance budget by category and by fiscal year. Although the O&M budget remains relatively flat, the key driver for the 7.5 percent rate proposal is the $2.2 billion CIP budget.

As in previous Committee budget review sessions, Mr. Adebo outlined major assumptions and board policies that underlie the budget proposals and the rates model. Mr. Adebo noted that WASA plans to issue approximately $300 million of new debt in the spring/summer of 2007 and will look at opportunities to refund some of WASA's old debt. The budget assumes 6.5 percent for fixed rate debt and 4 percent for variable (commercial paper) rate debt. One of the largest capital improvement projects is the Combined Sewer Overflow Long-Term Control Plan (CSOLTCP). The 20-year plan for this project totals $1.9 billion including inflation and the current CIP proposal includes $558 million. The budget assumes no additional federal assistance and the current rate structure.

For the most part, the CIP budget proposal includes a 3 percent annual inflation rate applied to the mid-point of construction. Due to exceptional increases in construction costs experienced in the recent past and advice from WASA's econometric consultants, staff inflated some near-term projects (those occurring within the next 12 to 18 months) by 5 to 8 percent per annum on a project by project basis.

Mr. Adebo continued with a discussion of the ten-year financial plan model which projects total use of cash of $332.2 million for FY 2008; $251 million for operating expenses, $73.8 million for debt service and $7.3 million for other uses of cash. The cash projection for FY 2008 is $303 million, or $29.2 million less than cash required. There are two possible sources for this revenue need, a retail rate increase or through use of the rate stabilization fund (RSF). In order to address this revenue shortfall staff is recommending a 7.5 percent retail rate increase to generate $11.2 million of additional revenues and $17.8 million draw down from the rate stabilization fund. Mr. Adebo noted that contributions from the RSF are a one-time infusion of cash and do not affect the rate base.

In referring to slide 15 of the presentation, Mr. Bardin asked about the $14.2 million reduction in other operating uses of cash between fiscal years 2007 and 2008. Mr. Adebo explained that staff collapsed several lines of cost in order to provide the Committee with the abbreviated version of the financial plan; and, that the drop in use of cash between the two years in the "others" category is the result of transfers to capital (PAYGO financing). Mr. Adebo agreed to provide the Committee with a written explanation for the change.

Next, Mr. Bardin asked about the 3 percent in projected wholesale revenues for FY 2008. In response, Mr. Adebo explained that staff projected wholesale revenues to increase by the same percentage as the sharable costs.

Continuing with the discussion of wholesale revenues, Mr. Bardin asked how much of the PILOT/ROW could legitimately belong to the wholesale customers. In response to the question, Mr. Johnson discussed the complexity of the PILOT/ROW issue and the wholesale customers' reserve levels. Negotiators for the WASA, the District and the IMA partners are aware of the issues and actively working to address them. After further discussion, Mr. Bardin asked for an estimate of a reasonable share of the PILOT/ROW wholesale customer payment. Mr. Johnson responded that the current IMA allocation based on jurisdictions share would be most reasonable and agreed to provide the Board with this analysis. Mr. Bardin asked that the Board retain this information in advance of voting for the proposed FY 2008 rate increase. While IMA negotiations continue, at least on an interim basis Mr. Bardin suggested that WASA use current methodology to allocate the

ROW/PILOT payment. Mr. Johnson added that the District is engaged in an audit to look at justification for the ROW/PILOT fees; and, these issues are part of the active discussions between WASA and all participants pertaining to renegotiating the IMA agreement. After further discussion, Mr. Bardin asked that the Board consider the impact of receiving this additional revenue on rate projections prior to any action on the budget proposals; and, asked staff to prepare and distribute to the Board their analysis of these issues as they pertain to the existing IMA. Mr. Bardin asked that the analysis include staff's judgment of both dollar and rates impacts. In addition, Mr. Bardin asked that staff provide the analysis which deducts a substantial amount from the amount required for operating the Blue Plains Plant; allocating a portion of those costs to WASA's wholesale customers. Given the potential for lessening the rates burden on WASA's retail rate customers, Mr. Bardin asked that board members review this analysis prior to considering action on the proposed budgets. Mr. Johnson explained that applying the current IMA cost allocation method to PILOT/ROW would generate approximately $3.2 million from the suburban jurisdictions.

Mr. Gerstell asked when WASA would publish the proposed retail rate increase in the D.C. Register. Mr. Adebo responded that typically, staff publishes the rate increase proposal within 30 days of adoption. If the Board adopts the budget as planned on February 1, staff would publish the rates by the end of the month.

Mr. Gerstell asked what if any action was required from the Retail Rates Committee at this point. Mr. Johnson responded that management would seek action from the Committee at the next meeting of the Committee scheduled for January 25.

Mr. Gerstell asked the staff to preliminarily report back to the Finance and Budget Committee concerning issues pertaining to PILOT/ROW, reserve requirements and other issues. This will assist the Committee in determining whether or not it is realistic to adjust the FY 2008 budget based on projected outcomes of the negotiations. Mr. Bardin asked management to provide written analysis to the Board as part of the mailing Finance and Budget Committee meeting scheduled for January 25.

Mr. Gerstell asked about the possibility of WASA receiving additional grant funding with the increasing focus on environmental issues. Mr. Johnson responded that he remains hopeful, however, the budget only reflects grant funding that we know of at this time. In fact, the proposed budget reflects a reduction in federal contributions for the District-only portion because of declining federal appropriations for the state revolving funds.

Continuing with his presentation, Mr. Adebo discussed proposed retail rate and fee changes for the ten-year period. Over the ten-year period, total expenditures increase on average by 6.1 percent annually. Operations and maintenance expenditures (excluding the PILOT/ROW) remain flat increasing on average by approximately 3.5 percent annually. Debt service expenditures grow at an annual average rate of 14.3 percent. The current rate stabilization fund balance of $58.5 million will be fully utilized by FY 2012 and the current plan uses the RSF to smooth rate increases.

Mr. Bardin referred to page 18 of the presentation and asked that staff reflect historical CIP completion rates on the bar graph showing the shift in revenue requirements during the earlier years of the ten year plan; this would also lower draws from the RSF in the earlier years leaving more RSF funds in later years.

Mr. Adebo discussed the impact of the proposed 7.5 percent rate increase on the average residential customer monthly bill. The water rate will increase from $2.03 per Ccf to $2.18 per Ccf, or $0.15 per Ccf. The sewer rate will increase from $3.06 per Ccf to 3.29 per Ccf, or $0.23 per Ccf. The combined water and sewer rate will increase by $3.17 per month. Based on fall 2006 rates for comparable utilities, WASA's retail rate is about the mid-point of the group.

Mr. Johnson referred to emerging issues, which have potentially significant financial and rate impact as discussed in detail at prior budget review sessions.

Prior to adjourning the meeting, Chairman Gerstell asked Mr. Johnson to post a copy of his excellent presentation on the WASA website; this will make information readily available to the public during the budget review process. Per Chairman Gerstell's instructions, staff will add a notation on the cover page of the presentation to indicate that the Board of Directors is currently in the process of considering the proposed budget. Hearing no further questions, Chairman Gerstell adjourned the meeting at 9:45 a.m.